

Message Text

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65

ACTION ARA-10

INFO OCT-01 AF-06 EUR-12 EA-06 NEA-10 ISO-00 ERDA-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 EB-07

FPC-01 H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01

PM-03 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 FRB-03 FEA-01 PA-01 PRS-01 /127 W

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P R 232111Z MAY 75

FM AMEMBASSY QUITO

TO SECSTATE WASHDC PRIORITY 5675

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMCONSUL GUAYAQUIL

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY TRIPOLI

AMEMBASSY TEHRAN

USMISSION OECD PARIS

C O N F I D E N T I A L QUITO 3603

E.O. 11652: GDS

TAGS: ENRG, PFOR, EC

SUBJ: SALAZAR ANNOUNCES POSSIBLE PRICE REDUCTION

1. IN A REMARKABLE STATEMENT MAY 22, MINISTER OF NATURAL RESOURCES SALAZAR ANNOUNCED THAT THE GOE IS STUDYING A POSSIBLE REDUCTION IN PETROLEUM PRICES BECAUSE OF NEW CIRCUMSTANCES OF WORLD SUPPLY AND DEMAND. IN RESPONSE TO A QUESTION ABOUT A POSSIBLE READJUSTMENT IN THE PRICE
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OF OIL, THE MINISTER SAID, "IF A CALM EXAMINATION OF

THE REALITIES OF PETROLEUM MARKETING ADVISES A PRICE READJUSTMENT, IT HAS TO BE DONE". SALAZAR MENTIONED THAT THE FOLLOWING ARE GOE CONSIDERATIONS IN PRICE RE-ADJUSTMENT:

- A. REDUCTION IN CONSUMPTION LEVELS OF THE INDUSTRIALIZED WORLD;
- B. WORLD-WIDE RECESSION;
- C. THE SHIPPING COSTS OF MIDDLE EASTERN CRUDE HAVE DECREASED TO THE EAST COAST OF THE UNITED STATES BECAUSE OF LOWER DEMAND AND LOWER TANKER LEASING CHARGES, AND ECUADOR MUST COMPETE WITH THIS LOWER REAL COST OF MIDDLE EASTERN CRUDE;
- D. PRICE DIFFERENTIAL BECAUSE OF PANAMA CANAL SHIPPING CHARGES.

SALAZAR ALSO SAID IF A READJUSTMENT OF PRICES IS JUSTIFIED, IT WOULD BE DONE IN ACCORDANCE WITH OPEC GUIDELINES AND HE SAID THAT IF OPEC DECIDES TO RAISE PRICES, ECUADOR WILL ACT IN ACCORDANCE WITH THIS DECISION.

2. COMMENT: SALAZAR'S STATEMENT IS A TOTAL REVERSAL OF HIS PREVIOUS POSITION (QUITO 3450) AND CAN BE EXPECTED TO DRAW CONSIDERABLE CRITICISM FROM SOME PRIVATE CITIZENS AND GOVERNMENT OFFICIALS. FOR MONTHS HE HAS SAID IN HIS PRESS ANNOUNCEMENTS THAT ECUADOR WOULD NOT CONSIDER A REDUCTION IN PETROLEUM PRICES SINCE GOE PRICES WERE IN LINE WITH OPEC PRICES OF \$10.12 PER BARREL. APPARENTLY THE CATALYST FOR HIS ANNOUNCEMENT WAS THE CONSULTATION WITH TEXACO-GULF OFFICIALS IN QUITO. LOCAL PRESS ALSO MENTIONED A WASHINGTON POST ARTICLE WHICH SAID THAT ECUADOR AND THREE OTHER MEMBERS OF OPEC (ALGERIA, NIGERIA, AND GABON) WOULD LOWER THE PRICE OF CRUDE IN THE NEXT FEW WEEKS. ON MAY 21, RENE BUCARAM, ASSISTANT TEXACO MANAGER, GAVE A POINTED AND COMPREHENSIVE SPEECH TO THE ECUADOREAN-AMERICAN CHAMBER OF COMMERCE IN WHICH HE OUTLINED THE GOVERNMENT TAXES, CONCLUDING THAT ECUADOREAN PETROLEUM IS THE HIGHEST PRICED-OIL IN THE WORLD. HIS SPEECH PROVOKED SOME EDITORIAL CRITICISM OF GOE TAX POLICIES. SALAZAR'S STATEMENT INDICATES AT LEAST A WILLINGNESS ON THE PART OF THE GOVERNMENT TO TAKE SOME ACTION TO FORESTALL THE DRASTICALLY DECLINING PETROLEUM REVENUES AND A WILLINGNESS BY THE GOVERNMENT TO CONFRONT THE TAX ISSUE

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RATHER THAN OFFER THE COMPANIES PRICE RELIEF THROUGH OTHER AVAILABLE, ALTHOUGH INDIRECT, MEANS. SALAZAR'S STATEMENT ALSO LACKS THE USUAL RHETORIC ABOUT OPEC SOLIDARITY, ALTHOUGH IT WOULD PROBABLY BE A MISTAKE TO READ HIS STATEMENT AS A BREAK WITH OPEC-DECREED PRICES.

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Draft Date: 23 MAY 1975
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